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FOL REPEAT COLOHBO 3670 SENT ACTION SECSTATE NOV 18

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TAGS: ECON, EFIN, EAID, CE

SUBJ: SRI LANKA FOOD SUPPLY, NUTRITIONAL, FINANCIAL SITUATION

REF: A) COLOMBO 2961 B) COLOMBO 2980 C) COLOMBO 3248

D) COLOMBO 3361

1. SUMMARY: WITH MONSOONAL RAINS DISAPPOINTING IN KEY

PADDY AREAS, SRI LANKA STILL FACES HUGE NATIONAL

FOOD SUPPLY SHORTFALL IN CALENDAR 1976. OF TOTAL

1976 440,000-TON WHEAT FLOUR IMPORT REQUIREMENT,

235,000 TONS ARE NOW ASSURED. REMAINING

205,000 TONS MUST BE OBTAINED FROM TWO SOURCES: US

PL-480 TITLE I AND COMMERCIAL PURCHASE. OF 300,000

TON RICE IMPORT REQUIREMENT 50,000 TONS REMAINS TO

BE PURCHASED COMMERCIALY.

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NATIONAL RICE MARKET WAS FREED OCT 8 (REF D) OF

ALL TRANSPORT AND SALE RESTRICTION IN ORDER
STIMULATE DOMESTIC PRODUCTION BUT THIS WILL REDUCE
GOVT DOMESTIC RICE PROCUREMENT FOR GSL RATIONED DISTRIBUTION.
WITH REAL INCOME FALLING FROM INFLATION, CEYLONESE
POOR CONTINUE HIGHLY DEPENDENT NUTRITIONALLY ON
GSL RATIONED RICE AND FLOUR DISTRIBUTION FOR WHICH
GRAIN IMPORTS ARE AS ESSENTIAL AS BEFORE.

2. NOV 5 BUDGET MESSAGE PROJECTED CY/FY
1976 MERCHANDISE TRADE DEFICIT AT ABOUT US \$207 MN
AND CURRENT ACCOUNT DEFICIT OF US \$167 MN; LITTLE
IMPROVEMENT FROM RECORD 1974 AND 1975 DEFICIT LEVELS.
PLANNING MINISTRY EXTERNAL RESOURCES DIVISION,
ASSUMING CY/FY 76 FOREIGN ASSISTANCE AT US \$150 MN,
NOW PROJECTS UNFINANCED FOREIGN EXCHANGE GAP OF
ABOUT US \$ 80 MN. WE HAVE GIVEN NO COMMITMENT OR
ASSURANCE ON PL-480, IMPLIED OR OTHERWISE. HOWEVER,

BASED ON FY 75 US PL-480 AID OF 100,000 TONS
FLOUR (140,000 TONS WHEAT EQUIVALENT); ON AID'S FY 76 CONGRESSIONAL
PRESENTATION (138,000 MT WHEAT EQUIVALENT) ON CURRENT
OPTIMISTIC CROP REPORTS AND ON STATED AMERICAN
POLICY TOWARD MSA LDCS, GSL IS INCLUDING IN \$150 MN
AID FIGURE VALUE OF 100,000 TONS TITLE I FLOUR. (SEE GSL
10/22/75 SUBMISSION FOR PL 480 AID, DATED 10/28/75, KANRICH TO
REES, AID/W). THUS ANTICIPATION OF SUSTAINED PL-480 TITLE I
ASSISTANCE IS EXTREMELY IMPORTANT ELEMENT IN GSL
FOOD SUPPLY AND FINANCIAL PLANNING.

3. SEPTEL WILL SUMMARIZE RECENT, SIGNIFICANT, AND
POSITIVE GSL ECONOMIC POLICY CHANGES AND WILL GIVE
IMPLICATION OF AMERICAN
FOOD AID FOR SRI LANKA'S
DOMESTIC POLITICAL OUTLOOK AND FOREIGN POLICY.
IN NUTRITIONAL, FOOD SUPPLY, AND FINANCIAL
CONTEXTS ALONE, HOWEVER, WE BELIEVE CASE IS
COMPELLING FOR FY 76 PL-480 TITLE I PROGRAM
AT LEVEL OF 100,000 MT FLOUR (140,000 TONS
WHEAT EQUIVALENT). END SUMMARY.

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4. DOMESTIC FOOD PRODUCTION SITUATION AND
OUTLOOK: ALTHOUGH 1976 PADDY PRODUCTION WILL PROBABLY IMPROVE
FROM THIS YEAR OF SUBSTANTIAL FAILURE
(PROVISIONAL ESTIMATE 51 MN BU OR ABOUT
720,000 TONS) CONTINUED INADEQUACY OF
NORTHEAST MONSOONAL RAINS IN KEY NORTHERN DRY
ZONE PADDY AREAS COULD PREVENT RETURN TO 1974
RECORD PRODUCTION LEVEL (77 MN BU OR ABOUT

1,110 M TONS). FROM RECENT DRY ZONE VISIT,
EMBOFF CONFIRMS THAT ALTHOUGH DAILY
SHOWERS HAVE STIMULATED SOME PLANTING, HEAVY
RAINS ARE STILL NEEDED TO FILL TANKS
(RESERVOIRS) AND ALLOW WIDESPREAD PLANTING
FOR SPRING 1976 MAHA (LARGE) PADDY HARVEST.
MEANWHILE HEAVY RAINS IN SOUTH HAVE FLOODED OUT
SOME WET ZONE PADDY. IF THIS RAINFALL PATTERN
CONTINUES, GSL AGRICULTURAL OFFICIALS EXPECT
PADDY CROP IN 57 TO 65 MN BU RANGE, (814 TO 930,000 TONS)

5. GSL GRAIN STOCKS IMPORTS, DISTRIBUTION:
ON NOV 17, WE REVIEWED 1976 GRAIN FIGURES WITH
FOOD COMMISSIONER (FC) AND EXTERNAL RESOURCES
DIRECTOR WITH FOLLOWING RESULT:

FLOUR:

A. CY 76 TOTAL REQUIREMENT 12-MONTHS TIMES 40,000 TON MONTHLY
DISTRIBUTION: 480,000

B. 1 JAN 1977 TWO-MONTH CARRYOVER: 80,000

C. TOTAL FOUR REQUIREMENT 560,000
LESS 1 JAN 1976 CARRYOVER 120,000

D. PRESENT IMPORT REQUIREMENT 440,000

E. SCHEDULED IMPORTS:

AUSTRALIAN DELIVERY (FROM 1975 PURCHASE) 40,000
ASSURED GIFTS 20,000
EXPECTED GIFTS 50,000
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FLOUR MILLED LOCALLY FROM AUSTRALIAN WHEAT 125,000

F. TOTAL SCHEDULED IMPORTS 235,000

G. 1976 UNCOVERED FLOUR IMPORT REQUIREMENT (D MINUS G)
205,000 TONS

RICE:

A. TOTAL REQUIREMENT FOR DISTRIBUTION (12 MOS X 55,000
TONS) 660,000
1 JAN 1977 CARRYOVER 80,000
TOTAL REQUIREMENT 740,000
LESS 1 JAN 76 CARRYOVER 20,000
GSL DOMESTIC PROCUREMENT 340,000

PURCHASE FROM PAKISTAN 50,000
EXPECTED FROM PRC 200,000
TOTAL RICE AVAILABLE 610,000

TOTAL UNCOVERED 1976 RICE SHORTFALL OF WHICH GSL NOW PLANS
TO IMPORT ONLY 50,000 130,000

6. EXTERNAL FINANCE AND FOREIGN EXCHANGE: RECENT
IMF REPORT (SEE REF C) GIVES BEST DETAILED ANALYSIS OF CONTINUED
STRONG NEGATIVE IMPACT OF SRI LANKA'S DETERIORATING TERMS
OF TRADE AND POOR BALANCE OF PAYMENTS
PROSPECTS NEXT YEAR. ALTHOUGH DEFICIT FIGURES
GIVEN IN NOV 5 BUDGET ARE SOMEWHAT IMPROVED
FROM 1975 UNCERTAINTIES OF TEA, RUBBER,
COCONUT EXPORT EARNINGS AGAINST CERTAINTY OF
RELATIVELY HIGH FOOD, OIL, FERTILIZER, AND
MANUFACTURED GOODS EXPENDITURES MAKE IT
LIKELY THAT DEFICITS WILL BE GREATER. RECENT
OPEC OIL PRICE INCREASE AND EXPECTED FOREIGN
EXCHANGE COST OF AUGUST NON-ALIGNED SUMMIT WILL
ADD TO BURDEN. IN NOV 5 BUDGET MESSAGE,
FINANCE MINISTER ANNOUNCED GSL'S INTENTION TO
ALLOCATE MORE FOREIGN EXCHANGE FOR RAW MATERIALS
IMPORTS TO STIMULATE PRODUCTION AND FOR MORE
CAPITAL EXPENDITURE FOR DEVELOPMENT. IF GSL IS
TO ACT DECISIVELY TO REVERSE LONG-TERM
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GROWTHLESS TREND; DIRECT, QUICK DISBURSING
FOREIGN ASSISTANCE WILL BE VITAL IN 1976. GIVEN
UNITED STATES EXPRESSED INTEREST IN SRI LANKA
ECONOMIC DEVELOPMENT, PL-480 ASSISTANCE IN \$20 MN
RANGE WILL BE ESSENTIAL INPUT.

7. UNCERTAIN DOMESTIC FOOD PRODUCTION
PROSPECT, PRESENT UNCOVERED 200,000 TON FLOUR
IMPORT GAP, AND US \$80 MN FOREIGN EXCHANGE
SHORTFALL AFTER ALL ASSISTANCE INCLUDING PL-480
SUM UP SRI LANKA'S NEED AS MSA LDC FOR TITLE I
PROGRAM AT LEAST AT FY 75 LEVEL (100,000 FLOUR/
140,000 TONS WHEAT EQUIVALENT).
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